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S-E-C-R-E-T

26 May 1960

MEMORANDUM FOR: Recipients of "Economic Aspects of the Power Position of the USSR and the Sino-Soviet Bloc in 1960-1965-1970." Project 00.2870, Dated 18 May 1960

SUBJECT : Changes in 18 May 1960 copy of "Economic Aspects of the Power Position of the USSR and the Sino-Soviet Bloc in 1960-1965-1970."

1. The attached revised pages reflect editorial and substantive changes resulting from ERA/ORR review of the subject report. Recipients are asked to substitute these pages in their copy of the report.

2. In addition, Section I, External Economic Relations, pages 43-47, has been completed and is also attached.

3. Contributors and reviewers who have additional substantive changes to propose are requested to communicate with the undersigned as soon as possible.

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EP 60-40

S-E-C-R-E-T

ECONOMIC ASPECTS OF THE POWER POSITION OF THE USSR AND THE SINO-SOVIET BLOC IN 1960-1965-1970

Project 00.2870

25X1A

18 May 1960
Revised: 24 May 1960

S-E-C-R-E-T

INTRODUCTION

The measurement of national power is a problem for which there is no single statistical answer. No measure has yet been conceived which will tell, in absolute terms, the size of the national power of any state. It is possible, with some degree of confidence, to measure ordinal changes in the national power of a given geo-political entity. Lacking a cardinal base, however, it is not possible to relate relative power between two or more states by any known procedure which would be commonly accepted by all, or even most, viewers of the international scene.

These qualifications on the measurement of overall national power apply also to the more specialized consideration of the economic aspects of national power. While it is true that there are a number of overall economic magnitudes which lend themselves to statistical measurements, it is equally true that when used for inter-temporal or inter-spacial comparisons these measurements have inherent limitations which circumscribe sharply their validity without qualifications. In most cases, the qualifications tend to blur the meaningfulness of the comparisons made. For the purposes of this paper there are four problems in the analysis of economic power which are directly relevant to our considerations. They are: (1) the problems of measurement of economic magnitudes; (2) the problems of time projections of economic

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activity; (3) the problems of comparability of given economic measurements; and, (4) the problem of the meaning of these indicators as related to a concept of economic power. The first three of these are essentially statistical problems with their attendant difficulties. The fourth is a more elusive problem, not subject to statistical measures, and it is treated further in the following section. In the analysis of the economic power of the Soviet Union and the Sino-Soviet Bloc these problems must be examined not only as economic measurements but, and perhaps more importantly, as they relate economic posture to Soviet political, military, sociological, and psychological goals.

The report which follows consists of three parts which, taken in reverse order for purposes of clarity, are:

Part III - A series of specialized studies of various economic activities and measurements of the Sino-Soviet Bloc designed to provide a background of material which, in one manner or another, is relevant to the understanding of economic power. These studies have circulated to the Task Force and should be considered as the Third, or Appendix, part of the study. They also provide the backup for the preceding part of the report;

Part II - A summary of those specialized studies which seem most directly relevant to the problem of the measurement of Soviet and Sino-Soviet Bloc economic power, particularly as this measurement invites comparisons with the U. S. and the Western World.

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The spectators of this contest -- particularly the uncommitted and underdeveloped countries -- are as unable as the contestants to measure the real size of and changes in relative economic power. An "image" of the progress of the contest is formed however and the influence of this "image" on their own economic and political courses of action may, in fact, have a real bearing on the relative economic powers of the two contenders, particularly in the long run.

Second, in the Sino-Soviet Bloc the power for determining economic policy -- indeed for all economic decisions -- reposes wholly within the Party-State apparatus. The essential identity of Party and State, taken together with the fact of central planning of all economic activities, results in a unique situation wherein the end use pattern of the components of Bloc gross national product are consciously directed to support specific pre-determined economic policies. In this manner the volume and direction of the flow of funds into the investment (or defense, or consumption) sector can be explicitly regulated. Thus, the rate of investment in growth producing industry, the level of defense expenditures; and the rate of growth of consumption are predetermined by the central planning authorities.

The extent of this ability to direct the volume and the pattern of end use allocations of resources enables the Bloc regimes to do more than control and direct internal economic development.

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It makes it possible for these countries to direct their economic policies in direct support of political, military, sociological, and psychological goals at national and international levels. The ability to mold economic policy to suit non-economic activities provides a flexibility with which it is possible for the Bloc states to undertake economic actions as a direct response to current internal or external problems or to undertake actions designed to produce a reaction - not necessarily economic - on the part of either the Western world or the Bloc populace.

Third, this direct control has aided the Bloc when engaging in direct competition with the West in established Western markets and in trade and aid relationships with the underdeveloped and uncommitted countries of the world. It means that not only a consideration of the capabilities of the Bloc to compete on an economic basis but also of its intentions to wield political and military influence through the use of economic pressures must be made. The Bloc has reached an economic size where its entry into competitive world markets may be used as a potent political weapon. Thus, it can, and does, fashion a foreign aid program with the underdeveloped and uncommitted countries based on political goals as well as upon rational economic consideration. This does not imply that all - or even a large part - of the inter-bloc trade is not based upon economic considerations. In fact, quite the reverse is the case. The increment to power comes into play when the potential ability of the Bloc to arbitrarily and drastically shift trade relations for non-economic reasons is evaluated.

Fourth, the long standing policy of economic autarky which has been followed by the Bloc [illegible] has had a significant bearing on the economic power of the USSR and, perhaps to a lesser degree, on the European Satellites and Communist China. This policy of autarky was initially a direct consequence of the Soviet fear of "capitalist encirclement" and the desire to insulate the domestic economy from outside influences. The establishment and consolidation of Soviet-type regimes in Eastern Europe and Communist China has served to reduce this Soviet fear of encirclement and has simultaneously led to economic policies which could well be termed intra-bloc autarky. Roughly 70 percent of total bloc trade is intra-bloc in origin. As such, the economic plans of the Bloc countries are well insulated from a dependence on outside sources of supply.

Fifth, the final factor for the measurement of relative economic power is the evaluation of the restraints on the system which impose an effective barrier to the attainment, utilization, or maintenance of economic power as measured under the preceding criteria. In the Soviet-type economic system there are two categories of restraints which are meaningful. They are, (1) economic restraints which are imposed as the result of resource limitations, and (2) ideological restraints which impose limitations on the degree to which economic efficiency can be attained within the parameters of the Marxian economic system. These restraints must be considered in any evaluation of economic power; more particularly, they must be assessed in their proper context when attempting to evaluate economic decisions which are taken in support of political or military objectives.

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in these goals are also more easily translated into economic action by virtue of this control of all economic activity. The Bloc is further aided in this respect by its relative independence with respect to outside sources of supplies. Thus, in competing with the Western world for markets and for sources of supply in the underdeveloped and uncommitted nations of the world the USSR and the Bloc as a whole can be guided by wholly non-economic objectives. While it is true that a great many of the trade and aid programs of the Bloc have a mutual economic justification; the bilateral trading practices of the Bloc, the priorities of intra-bloc trade, and the Soviet Union's greater need for Western industrial products, when coupled with the sometimes blatantly political motivation, may continue to limit the growth of these trade relationships with the underdeveloped countries.

Competition by the Bloc in established Western markets in the non-industrialized Free World may occur in some isolated industrial products and raw materials. Some such competition will, in all probability be effected for political reasons and its form and extent will depend largely on the political exigencies of the particular situation. On the other hand, Bloc trade with the industrialized Western nations will continue to serve primarily as a means of obtaining essential Western technology and/or hard currencies.

One further concluding note is in order. With its ability to direct internal economic activity the USSR is in a position

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to alter the pattern of end use of economic output directly--and virtually at will. While we foresee a level of defense expenditures during the next 10 years which remains constant--or grows only slowly (not more than 3 percent per year) this projection is based on a number of assumptions which obtain at present and which we expect will obtain, in general, during the period of the estimate. A marked change in Soviet military, political, or economic goals could alter this projection markedly. In short, given the assumptions that rapid overall economic growth--with a priority on heavy industry and some gains to the consumer--which will insure fulfillment of the 7 Year Plan is a major goal of the USSR and given the assumption that advanced weapons systems costs will be largely met out of reduced conventional defense expenditures our projection is reasonable and the relative economic power of the USSR (and the Bloc as a whole) will continue to present a growing challenge to the West. We cannot significantly affect this economic growth of the Bloc by domestic economic measures.

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By taking current trends as an example--and as a 'most probable' projection--the changes in GNP end use allocations by 1965 and 1970 (in 1958 prices) would result in the following picture:*

a. Consumption, at a 3.5 percent per capita annual rate of increase, would claim a reduced share of GNP--perhaps to about 55 percent in 1965 and 50 percent in 1970 (as compared to about 60 percent in 1958).

b. Investment, at an annual average rate of increase of about 11 percent would increase its share from about 27 percent in 1958 to about 35 and 40 percent in 1965 and 1970, respectively. The contribution of this investment to growth would depend upon the direction of the allocation of the investment resources.

c. Defense, if it remains at its recent absolute levels will claim a reduced share of GNP; perhaps as low as 7 percent in 1965 and 5 percent in 1970. Alternatively, if it retains a claim on a constant share of GNP, it would remain at about 9 to 10 percent.

Defense expenditures, although relatively stable since 1955, remain as potentially the most volatile element in the Soviet GNP end use pattern. It is undoubtedly the highest priority claimant on certain economic resources. This priority is directly affected by a number of factors whose trend is unpredictable. These factors include Soviet military and economic intentions, Soviet responses to US economic, military, and foreign policy actions, and the occurrence or non-occurrence of a technological breakthrough in the weapons

* When measured in the prices likely to prevail in the future the shift in proportions of GNP would be less since there would probably be compensative price changes. Prices would fall in fast growing sectors, relative to those of slower growth, as the scale of production expanded.

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field the end result of which could be to either raise or lower total military expenditures. A lowering of the relative share of total output going to defense would result in an increase in the relative share allocated to consumption of investment. The direction of this change in allocation would depend upon where, in the military establishment the reduction--or lack of growth--occurred as well as upon any independent intention to increase the relative share of either consumption or investment. By the same analogy, the raising of military expenditures would have an impact on these other sectors and the effect of this impact on growth would depend upon the composition of the increased military effort. It seems most reasonable to assume that any such increase in military expenditures would be in the areas of advanced weapons technology and would therefore compete with the investment resource demands of the heavy industrial sector thus causing a slowdown in overall growth. Should the impact be oriented towards absorbing manpower increments which might otherwise be allocated to the consumption sector, growth might also be inhibited by the allocation of manpower to support a larger conventional military establishment.

By sector of origin, industry will continue to be the favored sector of the Soviet economy through 1970. By 1965 as much as 40 percent of GNP will be industrial in origin; by 1970 this share may rise to about 45 percent. Agriculture will grow at a slower rate than GNP; its

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share of GNP originated will probably drop from about a third in 1960 to about a quarter in 1965 and to perhaps one-fifth in 1970. Construction and transportation will grow slightly more rapidly than GNP as a whole whereas communications will also grow more rapidly than GNP as a whole but it is so small a share at present that it still will not be much over one percent of total GNP originated by 1970. Trade, domestic and international, and services will probably grow, in the aggregate at about the same rate as GNP.

Our best estimates of defense expenditures indicate an estimated internal breakdown, for 1960, as follows:

Personnel costs	28 percent
Operations and Maintenance	17 percent
Procurement	26 percent
Other*	29 percent

Projections beyond 1960 are nothing more than best estimates of capabilities. We estimate that, for the short term (2 or 3 years), Soviet military expenditures will remain at about the same level as in the recent past (roughly level since 1955). This estimate is predicated upon the fact that the requirements of the massive development program of the Seven Year Plan fall most heavily on the heavy industrial sector in these years. It is clear that problems of manpower, industrial modernization; agricultural mechanization; and industrial and agricultural organization and management are most critical during this time period. The explicit defense budget for 1960, Khrushchev's announcement of troop reductions, actions taken to increase the number of workers in the industrial labor force and the implementation of cost reduction incentives

* Includes: Facilities, Research and Development, and other programs (nuclear energy) etc.

in the industrial sector all tend to support this estimate. Beyond 1962 we can only estimate that most of these economic problems will become far less acute and that therefore a higher level of defense expenditures falls more readily into an estimate of Soviet capabilities.* A share of GNP at a level of 9 or 10 percent is not unreasonable. Any estimate of what the share will actually be in 1965 or 1970, however, is predicated on assumptions as to what the international situation will be in those years as well as what Soviet intentions are in those years as well as for earlier and later years. Given either an implemented disarmament agreement or a Soviet take-over of the Free World by 1970, defense expenditures in that year might be as low as one or two percent of GNP. Under conditions of an intensified cold war, or full mobilization, they could be as high as 25 to 45 percent. Under a continuation of present conditions defense expenditures may well remain at an absolute level or rise slightly (our 3 percent limit). A technological break-through in advanced weaponry could result in a growth rate approaching the growth rate of GNP in these later years without a predictable impact on overall growth. In order words, there is no way, from an economic analysis standpoint, of predicting a level of defense expenditures for 1965 and 1970. Such projections can be made only if Soviet intentions and Soviet weaponry development are explicitly estimated.

* The "other point of view" envisages a rate of increase in military expenditures in 1960-62 at 9-10 percent per annum; with a continuation at that rate thereafter. Our (ORR's) position is simply that for the immediate future (60-62) such an increase would cause a serious drain on resources required for Seven Year Plan fulfillment and that--in our judgment--the Soviet leadership is serious enough about that fulfillment that it will allocate the resources needed. Beyond 1962 estimates are necessarily based on "intentions" and economic analysis will not begin to predict intentions.

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In the European Satellites economic growth is expected to be somewhat slower than in the USSR but still at a rate above that of the rest of Western Europe. They will, however, contribute a declining share of total Sino-Soviet Bloc GNP between now and 1970. On the other hand, the Satellites will experience relatively rapid overall growth compared to Western Europe, a high degree of industrialization, and an increasing stability (for the short run and possibly for the period of this estimate) as members of the Bloc alliance. GNP will probably increase at 5 to 6 percent annually and industrial production at 7 to 8 percent annually, with the higher rates at the beginning rather than the end of the period. As in the USSR, living standards will increase significantly and, by the end of the period may approach the 1958 West German level.

Investment will be a priority sector in all of the Satellite economies; growing at a rate above that of GNP growth throughout the period of this estimate. For a short period during the "new course" and immediately following the Polish and Hungarian uprisings, investment was stabilized while consumption was raised to "stable" standards. New investment drives (particularly in industry) have since gotten under way as a necessary concomitant of GNP growth. Consumption will probably rise 2 to 3 percent per capita annually Defense expenditures in the European Satellites are extremely difficult to measure; they seem to have been about 5 percent of GNP over the recent past and will probably remain at that level during the next decade. As in the USSR agriculture will grow at a rate below that of overall GNP.

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Since 1957 the Satellites have attempted to coordinate economic planning and to bring about specialization in production through the CEMA organization. This trend will continue throughout the current decade although progress in this direction will be beset by many difficulties.

In Communist China growth will continue to be rapid during the 1960's. Rates of growth of GNP and industrial production will exceed those of the USSR and the European Satellites by a considerable margin. GNP will increase to about $2\frac{1}{2}$ times the 1959 level and industrial production nearly 4 times. Communist China will reach a total size in 1970 nearly equal to the USSR in 1958 (in GNP and industrial production values).

The rapid industrialization of the economy and the resultant large increase in the urban population will result in a rise of average per capita consumption, at a rate that is estimated at 4 percent per annum. The rate of growth of GNP and industrial production is projected to slow down in the latter part of the 10 year period. A per capita increase in consumption averaging less than 4 percent per annum could mean that GNP and industrial growth rates would not slow down as much as is estimated.

In any event, Communist China is a rapidly growing increment to total Bloc economic power and will take on increased importance in any economic power "equation" during the 1960's and the 1970's.

The estimated growth of the Sino-Soviet Bloc from 1960 through 1970 is shown in Table 2, below.

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Table 2

GNP and Industrial Production

Sino-Soviet Bloc

1960, 65, 70

	Billion 1958 Dollars*		
GNP	1960	1965	1970
USSR	230	310	420
European Satellites	90	120	150
Communist China	90	140	190
Total Bloc	410	570	760
Industrial Production**			
USSR	120***	180	270
European Satellites	60	90	120
Communist China	30	60	100
Total Bloc	210	330	490

* Rounded to nearest $10 billion

** Value of Final Product. Final product is a more inclusive measure than Value Added by its inclusion of purchases from other sectors, particularly from agriculture and transportation. Both concepts are net of double counting within the sector. For a comparison of Final Product and Value Added measurements of Industrial production in the US economy see Table 2a, below.

*** In 1955 the value of final product of Soviet industry was 31 percent of the comparable magnitude for U.S. industry ($77 billion-USSR: $248 billion-US)

Table 2a

Comparison of Industrial Production Measures and GNP

(Value Added and Final Product)

US

1957 and 1958

	Billion 58 Dollars	
	1957	1958
Gross National Product	452	442
Industrial Production		
Value Added	138	128
Final Product	259	241

are adequate to support planned output increases and it is estimated that new plant construction will provide processing facilities which will enable China to produce an output of some 200,000 m.t. by 1970. Such a level of output would barely meet anticipated domestic requirements. In the USSR annual production may rise to 1 million tons by 1970; consumption requirements will rise to about the same level. However, self-sufficiency in the USSR may be achieved by that date as a result of increased output coupled with the current program of substitution of other metals, primarily aluminum, for copper wherever feasible.

The aluminum supply position in the Bloc presents a much more favorable picture. In the USSR, production will rise sharply and, despite the vigorous program of substitution of aluminum for copper, production will exceed requirements to a degree which will allow a continued rise in export capabilities. The one unfavorable spot in this overall picture is the low quality of the aluminous ore resources of the Bloc. These ores require more processing than those used in the West and consequently make for greater production costs. Significant expansion of Soviet exports to the West may be dependent on access to low-cost, high-quality, aluminous ores from external sources such as Africa or Southeast Asia. In the other countries of the Bloc, production will also rise sharply but they will continue to be dependent on the USSR for some aluminum imports until at least 1970.

In the Bloc as a whole nuclear energy output will be less than 1 percent of total energy output throughout the period.

The Sino-Soviet Bloc will continue in the 1960's--as in recent years--to rapidly increase its output of producers goods. In some items--and for one or more countries of the Bloc--these output gains will mean an ability to increase the share of producer durables as a part of total Bloc trade with the Free World.

In the USSR, with the major exception of chemical equipment, estimated output of producers goods during the 1960-70 period appears adequate to support planned economic growth. Productivity increases resultant from modernization and automation of production processes will be significant but no "technological breakthrough" can be foreseen. Output of metalcutting machine tools will rise from 160,000 units in 1960 to 200,000 units in 1965. Beyond 1965 output in units is not expected to rise significantly. An increasing share of total output will be of the more complex, automatic-type, machine tools and the total value of output will continue to rise throughout the period. Exports of machine tools to the industrialized West and to the underdeveloped countries of the Free World may well reach significant levels throughout this period. With some possible exceptions most of these exports will be of basic-type, general-purpose, tools.

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Most of this growth will be accounted for by television set output; by 1970 annual unit production of TV sets in the USSR probably will be equal to--if not larger than--US output in 1970 (which will be supplying a "saturated" market).

In the European Satellites relative growth of electronics output will probably exceed that of the USSR but real volume increases will only be a fraction of the Soviet increases. The Satellite electronic industries are presently dependent on the USSR for raw material and technological support. The decade of the 60's will see some reduction in this dependence on the USSR, primarily through increased production of raw materials and electronic components. Increased coordination of production specialization among the Satellites and increased imports from the West will also tend to reduce this dependence. Trade with the West, however, will not result in the Satellites becoming dependent upon the West to any significant degree. Major efforts in the Satellite countries will be oriented towards; (1) the production of consumer entertainment equipment for domestic use and for export and (2) the development of larger-scale production of industrial, military, and civil communications equipment for export to the USSR and for domestic use.

In Communist China, highest priority has been placed on the establishment of a large, integrated, basic electronics industry which will serve to reduce China's dependence on imports from the Bloc for the more commonplace types of electronic equipment. This program has resulted in a capacity to produce component parts more rapidly than

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they can be incorporated into end items by the presently existing final assembly plants. As a consequence, some items, such as receiving tubes and other standard components, began to move in international trade in 1958 and 1959. Output of more technologically complex equipment, however, continues to rank low in comparison with the USSR and the European Satellites and the period 1960-1970 will continue to see intensive efforts to reduce dependence on outside sources for these types of equipment. Such dependence will probably be sharply reduced--but not eliminated--during this 10 year period.

C. Technological Growth, 1959-1970*

General economic growth rates forecast for the Sino-Soviet Bloc over the next decade--and particularly industrial production growth rates--carry with them implicit assumptions of significant technological progress in most--if not all--fields of economic activity. These technological gains stem from two basic sources. The first--and to date (approximately) the most important--of these sources has been "borrowed" Western technology. This is not to say that the Bloc, and particularly the USSR, has not made significant technological gains through its own research and development activities, but rather that the bulk of Bloc industrial technology is based on pre-existing--Western-technology. At the present time the gains which can be realized through the additional borrowing of new technology are much less numerous in example and, in general, less significant in impact. Secondly, Bloc--particularly Soviet-engineering research and development

* Light industry growth (consumers goods) has been largely ignored in the preceding section on industry--it is treated later in the Consumer Welfare section.

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is at a high level of competence and there is every reason to expect that it will continue to grow in stature. Major gains in the widespread application of modern industrial technology will be made by the USSR during the next decade. Some of these gains will probably come in isolated production areas and will lend support to the Soviet goal of "catching up"--at least within those areas. This narrowing of the gap between Soviet and Western technology will reduce future Soviet capabilities to make rapid gains but will not reverse the trend of rapid technological growth in the Sino-Soviet Bloc. Productivity gains will continue to be large and will lend continued support to rapid GNP and industrial growth.

Technological innovation is not, either in a market oriented or in a Soviet-type economy, a be-all and an end-all in itself. Absorbtion of new technology into the productive processes of economic activity is a problem in any economy. The Soviet leadership shows an awareness of some of the basic problems that can impede the absorbtion of technology by the USSR. Given a continued rapid rate of technological growth and success in the absorbtion of this growth into economic activities the USSR will press very hard during the next decade against the present US overall superiority in industrial technology.

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Durable consumers goods and consumer soft goods output will rise significantly by 1970 from a presently low base. In 1970, however, per capita production of these goods will still be well below 1959 US per capita output. When quality and broadness of product mix are also accounted for the projected position of the Soviet consumer in 1970 is even less impressive. By Soviet standards the gains are real, however, and they will afford increasing satisfaction to the average Soviet (particularly urban) citizen.

Increased retail trade services; improvements in the quality and availability of medical services; improvements in education; and improvements in the quality, design, and assortment of clothing and footwear are also anticipated during the period. This clear evidence -- to the Soviet consumer -- of progress in the drive to "catch up" with the West should tend to improve the populations loyalty and support for the regime and will provide a basis for incentives to greater efficiency.

In the European Satellites a 2 to 3 percent yearly per capita increase in living standards during the period will reverse the trends of the 1950-55 period. This increased priority on living standards increases will be effected largely by an improvement in the quality of the diet, by an increased availability of durable consumer goods, and by better -- but still poor -- housing standards. By 1970 East Germany and Czechoslovakia may reach the present West German standard of living; Poland and Hungary will probably reach only about 3/4 of that level. These increases should assist the Satellite regimes in maintaining internal stability and should provide the communist heirarchy with a better "advertisement" for "Communism" than previously. These gains will, as

G. Transportation and Communications Developments, 1959-70

The inland transport system of the Bloc will meet the demands of the economy during the 1960's although it will have little reserve capacity. Railroads will perform an estimated 75 percent of total ton-kilometers. Communist China's inland system may no longer be a limitation upon the rate of growth by the close of the decade. Considerable increase in efficiency of inland transport will be gained from technological improvements. Activities by CEMA and OSSHD in this field will insure improved coordination of inland transportation.

The Bloc merchant fleets will grow at a phenomenal rate over the next ten years almost tripling dead weight tonnage to over 16 million dead weight tons. The percentage of world international seaborne cargo carried by Bloc vessels will, nevertheless, only increase from about 8% in 1960 to about 10% of the total in 1970. By the end of the decade, however, Bloc vessels will be able to carry all intra-Bloc seaborne trade and that portion of Bloc seaborne trade with Western countries which would under normal shipping practices be carried in bloc ships--about 60 percent of the total. In addition there will be about 4 million dead weight tons for use in direct competition with Western ship owners. Thus the magnitude of shipping tonnage available to the Bloc by the end of the decade will not only relieve the current heavy dependence on the West for shipping service, but will also provide a means of economic penetration and economic warfare.

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Over the decade the Soviets will rapidly expand civil air operations within the Bloc and will substantially increase international air traffic. By establishing, and in effect, monopolizing through international routes across the USSR and other Bloc countries they may be able to attract traffic away from more circuitous Free World routes. The large increase in high performance aircraft required for expansion of civil aviation would add to the military--logistical capabilities of the Bloc. In addition, the presence of large numbers of high performance Bloc aircraft operating abroad would be a prestige factor.

During the 1960-70 period the Bloc will continue to expand its capabilities in the field of international broadcasting as a weapon of major importance in the propaganda battle for influence in the underdeveloped countries. Integration of Sino-Soviet Bloc telecommunications facilities probably will proceed at an accelerated rate. An organization within the Bloc, dominated by the USSR, is overseeing the standardization, integration and expansion of domestic and international telecommunications facilities and services. By the end of 1965 the Bloc probably will have made much progress in the provision of a highly integrated telecommunications system. This will be another factor favoring the cohesiveness of the Bloc. In addition these developments will be of importance for military communications within the air defense network.

In the next decade, continued rapid growth in the production of telecommunications equipment will permit the Bloc to expand its sales to underdeveloped countries. In spite of the present tight supply of telecommunications equipment within the Bloc, substantial amounts of such equipment have already been exported or committed to these countries. Sales and installation of this equipment are not only another element of the economic offensive but offer opportunities for the acquisition of intelligence and for the subversion of internal control structures by manipulation of telecom facilities as well.

I. External Relations

The complex of political and economic factors which determines the course of Bloc trade, as well as the pattern of action-reaction which characterizes international politics, render projections in this sector extremely vulnerable. A change in any one of the myriad Bloc political and economic relationships could significantly alter the pattern of Bloc trade during the next decade. There are, however, several basic influences which are constants in this trade. Bloc trade will continue to serve primarily as a means of acquiring goods needed to accelerate economic growth along planned lines, so that its volume and direction will largely reflect internal investment decisions within the Bloc. Bloc leaders will continue to view trade within the broad context of Bloc political relations with the three major political areas into which they see the world divided: the socialist camp, the capitalist camp, and the colonial or former colonial countries. Trade will be used, accordingly, to strengthen the Bloc, divide the capitalist camp, and wean the underdeveloped countries away from the West.

Based on the experience of the past 10 years it is assumed that Sino-Soviet Bloc trade will grow at about the same rate as GNP, so that trade will bear about the same importance in total Bloc economic activity as it bears today. The declining growth rates projected for total output and industrial production over the next 10 years are thus parallelled by declining rates of growth for Bloc trade.

Within the Soviet Bloc an increasing rationalization of economic relations will be achieved by 1970 through closer coordination of national economic plans, increased regional and national specialization of production, and a greater integration of economic activity. It is further anticipated that attempts will be made to modify certain Bloc practices which continue to inhibit the rational distribution of Bloc resources (e.g. bilateralism, differences in national cost-price structures, and meaningless exchange rates). The increasing Soviet-Satellite and intra-Satellite exchanges planned for the next five years are expected to solidify for an indefinite period the predominant role of the Bloc, and particularly the USSR, in Satellite trade. These measures are expected to make the Soviet Bloc a more unified and interdependent region, both economically and politically, by 1970.

For China, commodity exchanges with the Bloc will be much less essential after 1970. China's leadership gives primacy to the goal of achieving a high degree of economic self-sufficiency and, while trade with the USSR is expected to remain at a high level after 1970, it will grow at a reduced rate as China's modern industrial capacity is able to provide increasingly larger shares of the machinery and equipment required for economic development. Insofar as China's current dependence on Soviet machinery deliveries has inhibited opposition to Soviet policies and wishes, this inhibition should be lessened after 1970. Thus there are forces at work which will tend to weaken the degree of economic and therefore political cohesion between China and the rest of the Communist Bloc after 1970.

There will be an expansion of Bloc trade with the industrial West, primarily to obtain the advanced equipment and technology needed to accelerate the growth of the Bloc's economic and military potential. This trade will, however, represent a relatively small share of the total trade of each side, and the economic development of neither will be vitally dependent on these trading relations.

It is highly unlikely that the USSR will seek to disrupt Western markets as a measure of economic warfare since the effectiveness of such actions is questionable and the results would impair the basic objectives of Soviet trade. Regardless of intentions, however, the intensity of sporadic Soviet export drives -- designed primarily to acquire foreign exchange -- could have disruptive effects similar to those caused recently by large-scale Soviet entry into world tin and aluminum markets. The Soviets will generally be amenable to negotiations, however, both because of their desire to have a voice in Western marketing arrangements and because such actions antagonize certain underdeveloped producing countries with whose products those of the USSR compete.

Bloc economic relations with Free World underdeveloped countries will be used chiefly to extend the sphere of Bloc influence in these areas. This basic political motivation renders the trade highly volatile, since its future development depends both on the assessment by Bloc leaders of the potential political gains to be achieved and on the receptivity of the uncommitted countries. The substantial political gains which have accrued to the Bloc so far, and the insignificant cost of this program in terms of Bloc domestic economic activity, will be a strong inducement to Bloc leaders to continue the economic offensive. This assessment would change if the Bloc suffered severe political reverses in these areas. Among the underdeveloped countries the Bloc program has so far been generally well received. As the economic strength and political prestige of the USSR and the Bloc continue to grow, the reluctance of uncommitted countries to extend economic relations with the Bloc will be diminished.

The program is expected to expand geographically over the next five years, with nominal assistance being offered to many countries. The concentration of large quantities of aid in a given country will most likely occur only in geographically or politically critical countries. Whereas the next five years of the offensive will be concentrated on the African continent, it is expected that the last half of the 1960's will see a greater concentration of trade and aid offers in Latin America.

The offensive can be substantially increased in volume without seriously affecting economic programs within the Bloc. An increase in credit extensions of $200 million a year would bring about net drawings of about one billion dollars annually by 1970. While the USSR will continue to be the chief source of Bloc aid, especially for large projects like the Aswan dam, the European Satellites are expected to provide a larger amount of economic assistance than in the past. China's aid program will be relatively independent of that of the Soviet Bloc, and its size and concentration will depend primarily on political developments in Southeast Asia. The Chinese aid potential will be enhanced by China's rapid economic growth and by expected improvements in its balance of payments.

Some shifts are anticipated in the commodity composition of Bloc trade with the underdeveloped areas over the next 10 years. The share of machinery and equipment in Bloc exports will continue to rise, particularly as the European Satellites take a more active part in the trade and aid offensive. A more pronounced shift should occur in Bloc imports from these areas. The development of the basic industries of the underdeveloped countries, built largely with foreign assistance, will provide opportunity for increased exports of industrial raw materials, in many of which the Soviet Bloc is deficient. Similarly the Bloc may provide a market of some significance for exports of the newly-developing consumer goods industries in these areas.